

addition, remedies currently exist for parties that claim predation: petitions against tariff filings; the formal complaint process; and, ultimately, antitrust laws. It is highly unlikely, if not impossible, that the LECs could successfully price low enough, and sustain these prices for the period of time that it would take to drive their competitors from the market, especially considering the number and size of their competitors.³⁹

H. Zone pricing should be applied to additional access elements under baseline regulation.

The *SFNPRM* seeks comment (at ¶84) on additional modifications to baseline regulation that would increase pricing flexibility in such a way as to promote the movement of prices toward cost. Density zones are cited as an example of such flexibility. GTE strongly urges the Commission to permit LECs to extend zone pricing beyond the transport elements currently permitted.

Since the establishment of access charges, the Commission's rules have required most access rate elements to be averaged at the study area level. The Commission adopted zone pricing for transport services as a means for allowing rates to better reflect variations in underlying cost among geographic markets within each study area. LEC wire center traffic density was used as a proxy for differences in cost.

³⁹ "AT&T Corp., girding for its push into local telephone services, has created a division of five regional entities to attack the Baby Bells in their home markets." See *The Wall Street Journal*, December 5, 1995 at A3.

GTE submits that the cost of many interstate access services also are related to traffic density, and that the transport zone pricing framework should be applied to these elements as well. As described *supra*, GTE recently filed a petition for waiver to permit its proposed ZonePlus service to be offered. ZonePlus would establish zone pricing for the end office switching element, the originating and terminating CCL charges, the RIC, and the information surcharge. In its ZonePlus Petition, GTE provides evidence that its common line and switching costs do vary significantly by zone.⁴⁰ GTE proposes to use its existing zone plan for all of these elements in the ZonePlus Plan.

GTE proposes that the rules for baseline regulation should permit LECs generally to establish rates on a zone basis for the elements listed *supra*, as well as for those special access transport services to which zones do not currently apply.⁴¹ These could be based upon the LEC's existing zones, and would have

⁴⁰ See *ZonePlus Petition* at 25-28. Further evidence on this point has recently been submitted by several parties in the Commission's proceeding on the Universal Service Fund. These data make it clear that both switching and loop costs are higher in low density areas. See Reply Comments of National Rural Telecom Association, filed Nov. 9, 1995, at 8-10, Reply Comments of TDS Telecommunications Corporation, filed Nov. 9, 1995 at 8-10, Reply Comments of National Telephone Cooperative Association, filed Nov. 9, 1995 at 19-21 in *Amendment of Part 36 and Establishment of a Joint Board*, CC Docket No. 80-286 ("D.80-286 USF NPRM").

⁴¹ GTE believes that it also would be useful to apply the zone pricing framework to the EUCL charge and anticipates that this issue will be addressed in the context of the forthcoming access reform proceeding.

the same five percent upper band limit for each zone.⁴² This proposal is incorporated within the revised basket structure proposed *infra*.

I. Rate reductions should not trigger additional constraints on subsequent rate increases.

The *SFNPRM* proposes (at ¶48) to apply an additional upper banding limit – of one percent – to service categories in which a LEC "makes price reductions pursuant to the pricing flexibilities in this Second Further Notice." GTE urges the Commission not to adopt this proposal, for the following reasons.

First, and most importantly, the price cap plan should not penalize LECs for reducing rates. To do so would create a disincentive for LECs to behave in ways which benefit consumers. A price cap LEC considering a voluntary price reduction should, like any other firm, consider the tradeoff between demand stimulation and revenue reduction. The price cap plan itself should, so far as is possible, be neutral with respect to the LEC's decision. But, under the *Second Notice* proposal, a LEC that voluntarily reduces rates will face a lower effective price cap constraint in the next period than a LEC that chooses to keep rates as

⁴² For the CCL elements, GTE will propose *infra* a capping mechanism that would take the place of an upper band limit on CCL zone rates. The existing zones were based on the volume of transport traffic at each wire center. Other measures of density may capture cost differences more precisely for different services; however, GTE does not believe that this would justify the complexity of maintaining different zone definitions for different services. GTE recommends that LECs should have the opportunity to revise their zone plans, perhaps to include more than three zones, to reflect the characteristics of the services.

high as possible.⁴³ This is not the kind of incentive structure the Commission should build into its price cap plan.

Second, the Commission should consider that relative rate adjustments are necessary over time to establish efficient rate relationships. The price cap plan was intended to allow such adjustments to occur. A one percent upper band limit does not allow sufficient scope for relative rate adjustments.

Third, the objective of the price cap plan is to mimic the effects of competition. While a competitive market generates information efficiently, it does so by trial and error, and each firm faces considerable uncertainty concerning the effects of its own actions. Competitive firms must be free to experiment with rate changes, new service offerings and promotions. The firm will find that some of these changes are useful, and others are not. Any regulation that "locks in" rate changes forever will inhibit this useful activity, and prevent the market from generating useful information about prices.⁴⁴

⁴³ Even if the LEC does not, as the *SFNPRM* fears, intend to raise rates which it has previously reduced, the additional constraint of a one percent upper band will become binding. This adverse effect occurs since the productivity offset drives the PCI down over time. For example, LEC A voluntarily reduces its rates in year 1 to bring them to a level it believes the market requires. LEC B, however, starting at the same point, keeps its rates at the cap. Although LEC A may have no intention of increasing its rates above the level set in year 1, the downward movement of the PCI will carry the SBI limits along with it. At some point, perhaps in year 3, LEC A may be forced to make an *additional* reduction in order to stay within the upper band. This could occur even if LEC A were still pricing below the basket cap. LEC B, meanwhile, would be able to maintain higher rates in year 3 than LEC A, by virtue of having held rates higher in year 1.

⁴⁴ "In contract bridge, a peek is worth a thousand finesses, and in marketing, observing the response of actual customers to a variety of actual products

Finally, it is not clear how the proposal in the would be administered. The Commission would have to distinguish rate reductions which are made pursuant to the pricing flexibilities in the *Second Notice*. This determination would then have to trigger different calculations of the Service Band Index ("SBI") for different service categories in future periods. Even if this could be done, it would present a significant administrative burden for both the Commission staff and the price cap LECs. Further, a service category may contain several rates. It is not clear from the *SFNPRM* whether a reduction in any one of these rates could trigger a one percent upper band, which would have to apply to all of the services in the category. If this were the case, the disincentive to reduce a rate with relatively small revenue weight would be especially severe.

The pricing flexibilities considered in the *SFNPRM* should be adopted (with the modifications proposed by GTE) because they will make consumers better off. As the Commission observes (at ¶81), there are other mechanisms in place which ensure against the possibility of predation. Further, as GTE has explained, this possibility would be extremely small in any event, given the characteristics of the market. If the Commission has concerns about predation, they would best be addressed by establishing an appropriate basket structure. More importantly, the Commission should adopt a simple and workable plan for moving the most competitive access markets out of price caps, and into streamlined regulation.

and prices is essential if the firm is to serve its customers." GTE's Comments, CC Docket No. 94-1, filed May 9, 1994, Attachment F,

This is the most effective way for the Commission to ensure that LEC actions in more competitive markets will not affect consumers in less competitive markets.

J. Improvements to baseline regulation should not be conditioned on any competitive criteria.

The Commission should not require any competitive showing in order to implement the changes proposed for baseline price cap regulation: revisions to baskets; reduced barriers to the introduction of new services; zone pricing; and provision for APPs incorporating volume and term discounts. These changes will improve the efficiency of baseline regulation, regardless of presence or extent of competition. Price caps are intended to replicate the outcome of a competitive market, even where the market is not yet competitive. The proposed changes would allow baseline regulation to better achieve this goal.

For example, zone pricing would allow prices to be aligned more closely with geographic differences in cost associated with density. Reduced barriers to new services would allow all customers to benefit from new and innovative services. Volume discounts would improve pricing efficiency by allowing the incremental price a customer faces to be closer to incremental cost. These are benefits that can, and should, be realized in markets where competition has not yet been demonstrated. A correctly structured price cap plan will protect customers in these markets from any possible anticompetitive behavior by LECs.

As noted *supra*, the Commission adopted analogous reforms for AT&T, even before adopting a price cap plan for AT&T. The Commission did this in markets where it assumed that AT&T still retained market power; and before any AT&T market had been found competitive through the application of criteria like those proposed in this *Second Notice*. The Commission took these steps because optional calling plans and customer-specific tariffs benefit interexchange customers.

It is important to set rules that encourage efficient prices, even in those areas where competition cannot be demonstrated, so that correct price signals will be sent to customers and to potential entrants. This will produce immediate benefits for consumers. Further, by promoting efficient entry, it will ensure that effective competition develops in these markets. Finally, accurate price signals are required if the market is to guide efficient investment in the infrastructure by incumbents and entrants.

Because GTE does not believe that any specific criteria should be applied in connection with baseline regulation, GTE will not comment on the specific criteria mentioned in the *SFNPRM*. However, GTE will offer two observations. First, the *SFNPRM* (at ¶108) does not establish any connection between the "checklist" issues and LEC market power in the provision of interstate access services. GTE does not believe that such a connection exists, especially with respect to the large customer segment. Large customers are able to select access arrangements from numerous service providers regardless of the status of local competition.

Second, the *SFNPRM* seeks comment (at ¶110) on the value of structural separation, *e.g.*, the Rochester model, as a threshold requirement for changes in price cap treatment afforded a LEC. While structural separation could be useful in cases where a "bright line" could be drawn between the competitiveness of specific markets, here no such "bright line" line exists and structural separation loses its usefulness. The LECs are facing facilities-based and reseller competition for interstate access services in most markets, and this competition is increasing. If distinctions are to be made regarding LEC markets, the valid ones would consider geographic markets and customer segments – not loops and switching. No sooner would a plan for structural separation be implemented, than the Commission would be faced with the need to implement an adaptive scheme of regulation for the newly created "monopoly" subsidiary.⁴⁵ Moreover, the costs associated with structural separation are tremendous and would unnecessarily burden the competitive services that the Commission is trying to encourage.

II. THE COMMISSION SHOULD SIMPLIFY THE PRICE CAP BASKET STRUCTURE.

The original price cap basket structure was based on the Part 69 rate structure, rather than on a detailed consideration of the relative cross-elasticities

⁴⁵ As the *Second Notice* notes (at ¶109), regulatory policy with respect to local competition is under the control of state authorities. The Commission should not condition its access policy on the regulatory approach selected by individual states.

of the access services. The Commission has since grouped switched transport services with special access in the trunking basket, to reflect both the functional similarities of these services and the Commission's judgment that switched transport services were subject to a greater degree of competition than the other elements in the traffic-sensitive basket.⁴⁶ However, since the price cap plan was first adopted, the Commission also has taken a series of actions that have greatly complicated the price cap structure.⁴⁷

Specifically, the Commission has created a significant number of new subcategories, each with its own individual pricing constraints, which has severely limited the LECs' ability to respond to competitive alternatives to those services that face the most competition (*i.e.*, high capacity DS-1 and DS-3 services). Similarly, the practice of placing rate elements for individual services, or a relatively small set of services, within their own subcategory has forced LECs to make rate changes for certain elements for which there are no rational market-based reasons to do so. GTE encourages the Commission to simplify the price cap structure in this proceeding.

- A. The existing price cap plan should be simplified by reducing the number of service categories and subindices.**

⁴⁶ See *SFNPRM* at ¶187.

⁴⁷ During this same period, in contrast, the Commission gradually simplified the basket structure for AT&T's price cap plan. See GTE's Comments, CC Docket No. 94-1, filed May 9, 1994, Attachment E.

Access elements should be governed by a price cap mechanism that minimizes rate caps for specific elements and subcategory banding constraints, except for zone density pricing elements. To this end, GTE recommends a simplified price cap basket structure with two important improvements. First, GTE's proposed structure would simplify the existing plan by reducing the number of service categories and subindices. GTE believes that its proposed changes will simplify the price cap plan, and permit LECs to adjust relative rates over time without resulting in competitive harm. Second, as discussed *supra*, GTE's proposed structure would accommodate zone pricing for most of the major access rate elements.

GTE's proposed price cap basket structure is as follows.⁴⁸ There would be five baskets: Switching; Transport; Common Line; Interexchange; and Video Dialtone.

- SWITCHING

The Switching basket would contain three service categories: Local Switching; Information; and Data Base. The Local Switching category would include the end office switching elements. LECs would be permitted to establish zones for local switching; each zone would have a plus five percent banding constraint, and no lower banding limit. Since the five percent bands would exist

⁴⁸ A chart that illustrates the proposed structure is shown in Attachment 1.

at the zone level, there would be no need for a banding constraint at the service category level.⁴⁹

The Information category would include: Information Surcharge; Directory Assistance; Operator Transfer; Busy Line Verification; Inward Operator Services; Billing Name and Address ("BNA"); and related Call Completion services. The Data Base category would include the following elements: 800 Basic and Vertical Services; and Line Identification Data Base ("LIDB"). For a number of these functions, the facilities used to provide these services need not be located where the calls themselves originate or terminate. Therefore, a geographic zone structure is not necessary for all of these elements, although LECs should be given the option to establish zone pricing for these categories if market conditions warrant.

The proposed Information and Data Base categories would consolidate a number of existing service categories into two, greatly reducing the complexity inherent in the existing Traffic Sensitive basket structure. This structure also aligns services that have similar network functions and customer utilities. GTE urges the Commission not to further subdivide the Traffic Sensitive price cap baskets, but instead to move toward a more optimal basket structure that relies on the PCI index itself to constrain price increases, rather than individual service category indices.

⁴⁹ If a LEC chose to raise rates in all three zones by five percent, it would still satisfy a five percent limit at the category level. The category limit would therefore be redundant.

- TRANSPORT

GTE proposes that the Transport basket include four service categories: Digital; Analog; Tandem-Switched; and Interconnection. The Digital category would include digital special access transport and channel terminations, including DDS, DS-1, and DS-3, dedicated switched transport, and related services, such as multiplexing. This arrangement would consolidate the current High Capacity subindices for DS-1 and DS-3 with DDS, which is not included today. This structure recognizes that transport services at digital bit rates are close substitutes for one another, and that where alternative supply exists (as it does in many markets), all of these speeds are available. This structure also would readily accommodate the introduction of new digital speeds or formats.

The Analog category would include voice grade special access, wideband, and analog audio and video services. This arrangement consolidates the existing category for audio and video with that for wideband. These services are based on older technology, and are being replaced over time by newer digital services. Customers for these services have the option of digital special access, as well as new switched digital services such as Integrated Services Digital Network ("ISDN"). As the cost of new digital services declines, and as the equipment used to provide analog services becomes obsolete, the price cap structure should allow the relative prices of these services to change accordingly.

The Tandem category would include tandem switching and tandem switched transport and the Interconnection category would include the switched

transport interconnection charge. LECs would be allowed to establish zones for the Interconnection category.

- COMMON LINE

The Common Line basket would include the End User Common Line ("EUCL") charges and the originating and terminating Carrier Common Line ("CCL") charges. The Common Line basket includes these elements today; however, rates within the basket are determined by a combination of revenue requirement calculations, specific rate limits, and the overall basket cap. Further, under the current structure, LECs are prevented from implementing zone pricing for CCL rate elements.

Nowhere is the need for access charge structure reform more crucial than in the current Part 69 rules which dictate the calculation and application of common line elements, a fact recently acknowledged by Chairman Hundt.⁵⁰ In recent years, it has become increasingly difficult to implement the pro-competitive policies of both state and federal regulators simply because of the antiquated nature of the Commission's Part 69 rules.⁵¹ The need to transition

⁵⁰ See Speech by Chairman Hundt, National Consumers Week Symposium, October 26, 1995.

⁵¹ For example, many states have mandated that LECs offer their local exchange services for resale and unbundle different components of the local loop to competition, a move strongly supported by the Commission itself. However, because of the rigid structure of the existing common line rules, LECs are forced to first seek waivers of the EUCL and CCL rate application rules before they can fully implement fair and balanced local competition. See, e.g. *Expedited Petition for Waiver of the GTE Telephone Operating Companies*, filed Oct. 31, 1995. Rapid development of the

common line cost recovery to reflect more economically rational pricing is readily apparent in the increasingly competitive access service markets. The Commission should address common line recovery issues in a comprehensive review of the access charge structure.⁵² As part of this reform effort, the common line recovery should be controlled by a standard API/PCI mechanism.

However, in the interim, the Commission should allow LECs to respond to existing access service competition by permitting LECs to establish zone pricing for CCL elements. Until the Commission completes its expected access charge reform proceeding, zone pricing could be accommodated without substantially modifying existing common line pricing rules. LECs can simply establish three separate zones for CCL rate elements with rate increases in each zone limited to the existing cap on the originating CCL rate (*i.e.*, \$0.01) and the maximum terminating CCL rate computed in accordance with existing rules. This approach would allow LECs to focus CCL rate reductions in higher density markets where

nation's telecommunications infrastructure and access to the Internet by the American public could potentially be hampered by the Part 69 rules governing the application of EUCL charges to ISDN. *See End User Common Line Charges*, Notice of Proposed Rulemaking, CC Docket 95-72, DA 95-2089, released May 30, 1995.

⁵² In the *Fourth Further Notice*, the Commission is considering the establishment of a LEC productivity factor based on Total Factor Productivity ("TFP"). Because the Balanced 50-50 formula was originally adopted to reflect the difference between growth in lines and minutes in the common line formula, it no longer has any validity under a price cap plan that incorporates measures of TFP. Therefore, the common line PCI formula should be revised to remove any adjustment that specifically reflects either per line or minute-of-use growth.

competition for access services is greatest. This would assure that no customer would be made worse off by the introduction of CCL zones.

LECs would continue to compute annual changes to the PCI and EUCL charges the same as they do currently. The maximum terminating CCL rate, to be used as the pricing cap for each zone, also would be computed in accordance with existing formulas. This proposal would be relatively simple to initiate and administer, would avoid the need to make significant changes to Part 69 rules, and would enable LECs to extend the benefits of zone pricing to access customers that utilize GTE's local exchange facilities. These procedures would remain in effect until the Commission addresses common line issues more comprehensively in the forthcoming access reform proceeding.

- **INTEREXCHANGE AND VIDEO DIALTONE**

GTE recommends that these baskets be carried over unchanged to the new structure as it is anticipated that those services encompassed by these baskets will quickly qualify for streamlined or nondominant treatment.

B. The Commission should not adopt a plan for adjusting price cap baskets over time.

The basket structure GTE has proposed *supra* is conservative, in that it closely follows the current structure, which in turn is based on Part 69. The *SFNPRM* (at ¶190) seeks comment on whether the price cap structure should be modified over time, or whether different structures would be appropriate for different LECs. GTE believes that there should be two opportunities for this structure, once adopted, to change.

First, the basket structure could be revised to conform more closely to economic market segments, rather than to Part 69 categories. A structure of this kind would more effectively provide the price cap protection baskets and bands were intended to afford consumers.⁵³ At the same time, a structure that matched relevant markets more closely would be more adaptable to streamlined regulation, since competitive showings could be made on a basket basis. However, such a structure should not be adopted on a mandatory basis for all LECs. New measurement capabilities may be needed to implement a different basket structure, since demand must be tracked in order to construct the necessary indices. GTE recommends that the Commission adopt in this proceeding a second, optional basket structure. A price cap LEC should have a one-time option to recast its demand and prices into the alternative structure. GTE will discuss this alternative basket structure in more detail *infra*, in connection with its comments on the definition of relevant markets for streamlining.

Second, to the extent that the access rules are changed significantly in an access reform proceeding, there would be an opportunity to make further changes to the price cap basket structure. The recommendation proposed herein does not propose changes to the basket structure which would be associated with fundamental changes to the Part 69 rate structure.

⁵³

See SFNPRM at ¶186.

GTE does not recommend that the Commission adopt rules in this proceeding that would adjust price cap baskets in response to showings of competition by the LECs. The mechanism for adaptive regulation should be simple and predictable; it should allow LECs to respond to competition; and it should ensure that customers in less competitive markets continue to be protected by price caps. The best way to accomplish these objectives is to remove relevant markets that are found to be competitive from price caps – as the *Second Notice* proposes to do under streamlined regulation – rather than to move services among baskets within price caps.⁵⁴

III. THE COMMISSION SHOULD IMPLEMENT STREAMLINED REGULATION IN ACCESS MARKETS WHICH MEET COMPETITIVE CRITERIA.

GTE commends the Commission for tentatively proposing a system of adaptive regulation for LEC interstate access services. GTE has consistently advocated such a system,⁵⁵ since it would adjust the degree of regulation to match the degree of competition in LEC access markets. This approach clearly produces benefits where competition has developed by allowing LECs to compete vigorously in those markets. If structured correctly, this system will also provide benefits in markets where competition has not yet developed, by establishing clear expectations among the parties as to how regulation will adjust to competitive entry. This will allow both the incumbent and potential entrants to

⁵⁴ See *SFNPRM* at ¶¶127-158.

⁵⁵ See GTE's Comments, CC Docket No. 94-1, filed May 9, 1994, at 41-44.

base their investment decisions on reasonable expectations concerning future prices. In order to achieve these benefits, a framework of adaptive regulation must be simple enough to administer and predictable in its outcomes.

A. Three dimensions should be used to define a relevant market.

As the *SFNPRM* recognizes (at ¶116), a relevant market encompasses commodities that are easily substituted for one another. GTE submits that there are three dimensions which should be used in defining a relevant market: geography, service and customer segment. The *SFNPRM* discusses the geographic and service dimensions, but does not deal with the customer dimension. GTE submits that the characteristics of end-user access customers affect the degree to which services are substitutable. Therefore, a relevant market should be defined as a set of substitutable services provided to a given customer segment, within a geographic area.

The Geographic Dimension

The *SFNPRM* correctly recognizes (at ¶116) that an access market is limited to a geographic area where access services are substitutable. For most access, it is not economic for customers to use supply in one geographic area as a substitute for supply in another area. Recognizing this, the *SFNPRM* asks (at ¶123) if the current pricing zones should be used to define the relevant geographic market for streamlined regulation. In its earlier access reform proposal, USTA proposed that wire centers be used as the unit of observation

for streamlining.⁵⁶ USTA contemplated that wire centers could be grouped into larger areas, but did not propose any constraints on how this should be done. In discussing *USTA's Petition*, the *SFNPRM* (at ¶126) expresses concern that using wire centers as the relevant market would cause too many separate markets to be defined, imposing a burden on the Commission.

The current zones are themselves simply groupings of wire centers. Therefore, in evaluating the Commission's proposal, two questions arise. First, are wire centers useful as building blocks to arrive at the relevant geographic area? GTE believes that wire centers are useful as building blocks to arrive at the relevant geographic area since LECs provide interstate access services on a wire center basis today.

Access services are identified in LEC access tariffs by wire center; ordered by wire center and rated based on wire center to wire center mileages. In addition, LEC ordering, billing, and demand tracking systems are based on wire centers. Therefore, much of the data that a LEC would use for a competitive showing would be collected by wire center. Further, wire centers are logical units for removal of services from price caps, since demand data for the construction of price cap indices would be available on that basis; and, LECs would be able to publish different prices or terms by wire center.

Other approaches suggested by the Commission (at ¶125), which are not based on current LEC operations, *e.g.*, counties, zip codes, Local Access and

⁵⁶ See *USTA's Petition*.

Transport Areas ("LATAs"), and Metropolitan Statistical Areas ("MSAs"), do not have the practical advantages of wire centers.⁵⁷ Further, none of these units can be expected to correspond to a relevant market in all cases.

Second, given that wire centers are useful building blocks, are the current zones a reasonable way of grouping wire centers for the purpose of identifying relevant markets? GTE submits they are not.

Zones were created for a different purpose -- to approximate differences in cost by using differences in density. Zones appear to be functioning as desired for this purpose. Yet, even a casual observation of zone maps clearly shows that zones do not meet the criteria for defining a relevant market set forth in the *SFNPRM*. As the *SFNPRM* recognizes (at ¶124), the zones present a "checkerboard" pattern. In some areas, a Zone 1 office will be surrounded by both Zone 2 and Zone 3 offices, which are clearly good candidates for inclusion in the same relevant market. Indeed, Competitive Access Provider ("CAP") networks already may be serving offices in adjacent, but differently classed, zones. Conversely, Zone 1 also may include other offices in different parts of the state, separated from one another by large distances.⁵⁸ Clearly, customers could not substitute alternative supply across these geographically separate areas. In

⁵⁷ In fact, if another unit were chosen, it would be necessary to associate it with a wire center or set of wire centers in order to implement the plan.

⁵⁸ Attachment 3 is a map of GTE's serving areas in Indiana, which illustrates the points discussed here.

general, it would appear to be reasonable to expect that relevant geographic market areas would be contiguous.⁵⁹

The *SFNPRM* (at ¶124) suggests that zone plans could be modified to conform more closely to relevant markets. GTE submits that it would be better to allow zones to do what they were designed to do – capture cost differences – rather than to modify them to meet another objective.

There is no obvious fixed geographic unit (*SFNPRM* at ¶125) that appears to correspond to a relevant market. As the Commission notes, LATAs or MSAs will generally be too large, and too heterogeneous, to provide useful definitions.⁶⁰ In many places, competition can be quite intense in a relatively small geographic area – a downtown financial district or suburban office parks – without encompassing an entire city, county, or LATA. Yet in other places, competitors already serve quite a large area. In the future, as competitors with more

⁵⁹ There may be exceptions to the contiguity requirement for some services. For these services, the facilities that provide the service need not be located in the area where the service is available. An example of this would be directory assistance. Directory assistance service typically provides information for a given set of Numbering Plan Areas ("NPAs"). These need not be contiguous, and the data base that provides the service need not be located in any of the areas served. The rationale for designating a group of wire centers as the relevant geographic market where this type service is available still applies, but in this case the wire centers do not need to be contiguous.

⁶⁰ Another disadvantage of using MSAs is that they cover only a small part of the land area of the United States. Zip codes appear to combine the disadvantages of all the other alternatives. There are many of them; they vary greatly in size; they do not correspond to LEC operations in any way; and the necessary LEC data are not available by zip code.

ubiquitous networks (*e.g.*, cable companies) enter the access market, the areas subject to competition may be quite extensive.

What is needed, then, is not a fixed definition based on an existing unit, such as an MSA or a fixed set of wire centers, such as a zone. GTE proposes that the Commission establish a framework that allows the basic building block – the wire center – to be grouped to capture the relevant market in each area. This grouping may be small in some areas and large in others.

GTE proposes that the Commission should establish simple guidelines to govern how LECs could group wire centers to define the geographic dimension of a relevant market. GTE suggests that the Commission set two simple parameters to govern the grouping of wire centers. First, the serving areas of the wire centers in the group must be contiguous.⁶¹ Second, each wire center area also must be touched by the area the LEC shows to be "addressable."⁶² These parameters would allow a relevant market to be as small as a downtown financial area, or as large as an MSA – but only if the market characteristics justified it. These rules would allow a LEC to expand the wire center group to the point where it included all of a relevant market – subject to limits which would prevent inclusion of areas which were geographically distant, or where there were no competitive alternatives.

⁶¹ As noted *supra*, an exception to this requirement may be appropriate for a few services, such as data base or information services.

⁶² The procedure for demonstrating addressability will be described *infra*. GTE will refer to the addressable area as the "footprint."

In designing these guidelines, the Commission must address the size of the grouping. If the group is too large, wire centers where no alternatives exist may be grouped with wire centers that are very competitive. If the group, as a whole, meets the criteria for streamlining, some wire center areas within the group will then lose price cap protection, even though customers there have no choices available.⁶³ If the group as a whole does not meet the criteria, then the LEC would be prevented from responding to competition in the area that is truly competitive, simply because the size of the relevant area has been misspecified. If the area is too small, it will not capture all of the relevant market. The LEC then would not be able to respond to competitors in that market on the basis of a single showing. This would create a burden for the LEC, a delay in responding to competition, and an administrative problem for Commission, since the LEC would be obliged to make many separate showings.

Given these rules for the grouping of wire centers, GTE believes that the use of the wire center as the unit of observation will not lead to an unreasonable number of competitive showings. GTE estimates that, during the first two years of the plan, showings would be submitted for no more than 80 to 100 areas. This number of showings should be manageable, especially if the criteria and

⁶³ Note that the test should be applied to the group as a whole. If it were applied to each wire center in the group separately, the purpose of grouping would be lost, and the plan would become difficult to administer.

support requirements for the showings are designed to make the process simple.⁶⁴

The Service Dimension

The *SFNPRM* seeks comment (at ¶118) on whether the price cap baskets' subcategories should be used as the relevant markets for streamlining services. GTE agrees that relevant markets should have a service dimension, and this dimension could be related to the price cap basket structure. However, the current price cap structure is based to a large degree on the Part 69 rate element structure, which is excessively prescriptive and in need of reform.⁶⁵ Since the LEC price cap plan was first adopted, subsequent Commission decisions have added subcategories to the price cap basket structure. In general, the current price cap subcategories are too small to define unique relevant markets, since in many cases the services in one subcategory will be cross-elastic with services in another subcategory. In some cases, the rates in several categories apply to the same demand. An example would be the CCL, RIC, and local switching charges.

GTE recommends two proposals that could be implemented in this proceeding to assure development of more reasonable service dimensions for

⁶⁴ It is also likely that the first few showings LECs submit will be controversial, but that subsequent showings will become less so as precedents are established as to how such showings will be reviewed.

⁶⁵ A comprehensive access reform proceeding revising the Part 69 structure would also lead to simplification of the price cap basket structure.

the definition of a relevant market. First, the Commission should simplify the current price cap basket and subcategory structure. Under the new structure, there would be fewer subcategories. Price cap LECs should have the option of making a competitive showing for one or more of these subcategories, within a relevant geographic area. Second, the Commission should establish logical service groupings which would include all substitutable services and would not be limited by subcategories. As GTE will describe *infra*, these logical service groupings may differ depending on the customers served. The logical service grouping could then be combined with the geographic and customer dimensions to define a relevant market. Price cap LECs should have the option of making a showing for one or more of these relevant markets, each of which would comprise a group of substitutable services provided to a given customer segment within a relevant geographic area.

This option would establish a relevant market that would more accurately reflect the substitutability of services. In addition, this approach would make the plan easier to administer because these logical service groupings would be less numerous than price cap subcategories, thereby minimizing the number of separate showings the Commission must review for each geographic area. As explained *infra*, relevant markets should be defined with a combination of dimensions – geographic, service and customer.

The Customer Dimension

The opportunity to substitute access services for one another may vary, depending on the characteristics of the end-user location. These differences